

Settlement Agreement

WHEREAS, on September 5, 2001, the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina ("PSCSC") announced a joint investigation of July, 2001 allegations regarding accounting irregularities at Duke Power, a division of Duke Energy Corporation ("Duke");

WHEREAS, the NCUC and PSCSC ("Commissions") announced that their joint investigation would continue in the form of an audit ("accounting review") of Duke conducted by an independent firm;

WHEREAS, the NCUC and PSCSC solicited independent firms to conduct the accounting review by way of a request for proposals that set forth the general guidelines and scope in a document entitled "Scope of Independent Audit of Duke Power." the terms of which are incorporated herein by reference and hereafter referred to as "accounting review;"

WHEREAS, the NCUC and PSCSC received competitive bids from independent firms to conduct the accounting review and pursuant to this process selected the accounting firm, Grant Thornton, LLP, to conduct the accounting review;

WHEREAS, Grant Thornton, LLP has completed its accounting review and has issued its report ("the GT report") to the NCUC and PSCSC.

WHEREAS, Duke has submitted its response to Grant Thornton, LLP's report to the NCUC and PSCSC; and

WHEREAS, the Staffs of the NCUC and PSCSC ("Commission Staffs") and Duke (hereafter referred to collectively as "the parties") desire to formally and positively resolve all matters within the scope of the accounting review without further controversy

NOW, THEREFORE, the parties agree as follows:

- 1 The Commissions received Duke's August 28, 2001 report, the GT report filed October 22, 2002 and Duke's response filed October 22, 2002. The Commission Staffs believe that Duke's August 28, 2001 report addressed the matters within the scope of the Commissions' request at that time and that the accounting errors and issues described by Duke in its report were fully reviewed by Grant Thornton. The parties recognize that Duke and Grant Thornton are in agreement on certain issues, however, with regard to the accounting treatment for nuclear insurance distributions and certain other accounting issues addressed in the accounting review, the GT report and Duke disagree based upon assertions of differing professional opinions. Therefore, in order to conclude the accounting review process and to resolve and settle all matters resulting from and within the scope of

the accounting review, the parties agree to the terms of this Settlement Agreement. It is expressly understood and agreed that the acceptance of the terms and conditions of this Agreement is in full accord and satisfaction of and in compromise of a disputed matter, and that the execution of this Agreement by the Commission Staffs and Duke is not an admission with respect to any matters resulting from and within the scope of the accounting review, but made for the purpose of terminating a dispute.

- 2 Duke agrees that it will, no later than December 1, 2002, file for informational purposes the following state regulatory reports and a reconciliation, for the years 1998, 1999, 2000 and 2001, to reflect the impact of the recommended entries set forth in the GT report:
 - c NCUC Quarterly ES-1 reports
 - o PSCSC Quarterly reports
 - c State specific pages of FERC Form 1 reports
- 3 The parties agree to financial and accounting terms that will generally require Duke to restore in fiscal year 2002 the nuclear insurance reserve account to a level it would have reached had Duke not changed its accounting for nuclear insurance distributions in 1998, to correct in 2002 an erroneous 1998 accounting entry related to its Price Anderson Act nuclear liability reserve. and to make a one-time \$25 million credit in 2002 to its deferred fuel accounts for the current benefit of North and South Carolina customers. These terms are more particularly described below
 - a Duke agrees to credit the nuclear insurance distributions it received in 2001, in the amount of approximately \$33.45 million, to Account 228.1 – Accumulated Provision for Property Insurance, an operating reserve account. Duke further agrees to credit \$16.55 million of the nuclear insurance distributions from the amount of approximately \$24.5 million which the company received in 2002, to Account 228.1, with the remaining amount of approximately \$7.95 million to be recorded as a credit to Account 924 – Property Insurance. The NML portion of nuclear insurance distributions received by Duke in 2003 and subsequent years shall be credited to Account 228.1 and the remainder of any such distributions shall be credited to Account 924. All monies credited to Account 228.1 – Accumulated Provision for Property Insurance, an operating reserve account, shall be held for the benefit of ratepayers until the Company's next general rate cases in North and South Carolina, at which time the NCUC and PSCSC shall review the status and sufficiency of the account and shall determine the appropriate jurisdictional ratemaking treatment of all such funds, including all amounts then credited to Account 228.1.

- b. Duke agrees to credit the amount of \$1.75 million to Account 228.1 – Accumulated Provision for Property Insurance, an operating reserve account, and agrees to debit Account 421 – Miscellaneous Nonoperating Income (a below the line account) in order to remedy an incorrect 1998 accounting entry related to the Price Anderson Act.
 - c. Duke agrees to implement all of the remedial actions set forth by the Company in Paragraphs IV.b – IV.e of its August 28, 2001 Report to the NCUC and PSCSC.
 - d. Duke acknowledges and regrets that communications with the Commissions failed to adequately detail significant changes to prior accounting practices. In order to achieve full and complete resolution of all issues, whether disputed or agreed, within the scope of the accounting review, Duke agrees to record a one-time credit of \$25 million to the deferred fuel accounts. Account 232.03 – Unbilled Fuel Revenues (North Carolina) in the amount of \$18.75 million and Account 232.08 – Unbilled Fuel Revenues (South Carolina) in the amount of \$6.25 million, for the benefit of North and South Carolina customers. These amounts will be incorporated into the next rate clause proceedings in the respective states as an offset to rate costs for the 12-month period established in the proceedings.
- 4. Duke agrees that the cost of Grant Thornton, LLP's (and its contractors') professional fees and expenses for the accounting review will be charged to its non-utility operations.
- 5. Having reached resolution of this matter, it is the intention of the parties to move forward in a positive fashion without further controversy.
- 6. The parties recommend that the Commissions approve the terms of this Settlement Agreement.
- 7. This Settlement Agreement shall be submitted for approval to the NCUC on October 28, 2002, and to the PSCSC on October 29, 2002. Each party reserves the right to withdraw this Settlement Agreement at any time prior to its approval. If the Settlement Agreement is not approved, or if it is modified or withdrawn, it is null and void by its terms and shall not be admissible in any subsequent proceeding.

This Settlement Agreement is final and conclusive.


DUKE ENERGY CORPORATION

By: 
Ellen T. Ruff

Effective Date: October 22, 2002

Its: Senior Vice President Asset Management

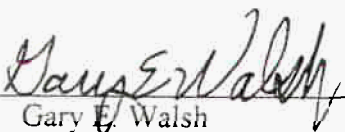
NORTH CAROLINA UTILITIES
COMMISSION STAFF

By: 
Robert H. Bennink, Jr

Effective Date: October 22, 2002

Its: General Counsel

PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA STAFF

By: 
Gary E. Walsh

Effective Date: October 22, 2002

Its: Executive Director